

## CHAPTER III

### The policy of Indonesian Government in the Foreign Direct Investment

In the perspective of International Relations, Multi-National Corporations (MNCs) is the new actor that playing an essential role in the international economic business. On the other hand, the approach of liberalism and capitalism in the economic sector shows that capital and free market can influence the politics and policy of a state. Moreover, the existence of MNCs can influence the policy of a state that has most critical strategy of MNCs management to enlarge its domination in overseas.<sup>103</sup> Also, the planning strategy that bases on period consists of strategic planning/long-range planning, medium-range planning, and little planning.<sup>104</sup>

Specifically, focusing on the long-range planning, this term established in 1950 and 1960, when the economic development of a state became “to the first five and four years plans.<sup>105</sup> Moreover, the long-range planning considered the existence of regular monetary planning in a year and consists of operation and budgetary planning.<sup>106</sup>

Furthermore, in the term of long-range planning, the MNCs need support from the policy host government to enlarge its market. The purpose is to make the production and marketing system easier and efficient. In the case of SGMW, China’s government tends to support China’s MNCs through foreign investment as the contribution and action in the global

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<sup>103</sup> Situmorang James R, “Perencanaan Jangka Panjang di Perusahaan Multi National,” *Jurnal Administrasi Bisnis*. Vol.7 No. 1, 2011, Page 77

<sup>104</sup> *Ibid*

<sup>105</sup> *Ibid*

<sup>106</sup> *Ibid*

economy.<sup>107</sup> On the other hand, the policy of the Indonesian government towards foreign direct investment is to increase the national income and strengthen its national economy.

Moreover, the existence of ASEAN Economic Community (AEC) as the most prominent economic integration in the developing state has a vital role in supporting the foreign investment flow in the ASEAN states, especially for Indonesia.<sup>108</sup> Therefore, the stable integration of AEC established a region that becomes the base production to attract foreign direct investment and strengthen the international trading in East Asia.<sup>109</sup>

In addition, On November 4<sup>th</sup> 2002, ASEAN and China established the ASEAN-China Free Trade Area (ACFTA). The purpose of ACFTA is to create a free trade area between all of ASEAN countries and China with minimizing the problem of tariff and non-tariff, increasing the access of market service, ease the regulation of investment, and increase the economic development in ASEAN and China.<sup>110</sup> Therefore, concerning the point of foreign investment regulation, SGMW will have easier access to expand the ASEAN automotive market, and conducting foreign direct investment in Indonesia.

Also, China is one of the developing states that have significant economic growth in the last three decades, and

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<sup>107</sup> Cipto Bambang, "Strategi China Merebut Status Super Power," 2018, Page 33

<sup>108</sup> Wika Gek Sintha Mas Jasmin, "Iklim Investasi Negara-Negara ASEAN Menuju ASEAN Economic Community (AEC): Investasi Langsung Luar Negeri (FDI)," Jurusan Manajemen Fakultas Ekonomi Universitas Ciputra, 2014, page 1

<sup>109</sup> Ibid

<sup>110</sup> Siwi Permata Arisa, "Bilateral Free Trade: Hubungan Perdagangan Indonesia-China dalam Kerangka ACFTA," Jurnal Analisis Hubungan Internasional, Vol. 2 No. 3, 2013-09, Page 3

strengthen the position of China in the International arena.<sup>111</sup> Moreover, in 1998, China gave financial aid to the Asian country in the crisis of financial era, and in 2008 China also bought the obligation of the United States of America to overcome the problem of economic crisis.<sup>112</sup> Therefore, it shows China has a dominant economic position to enlarge its domination, primarily as the Investor for other countries.

Besides that, some foreign and Chinese scholars underlined the mix of prevailing conditions and Chinese government priorities established the peace strategy to make a relation with other states.<sup>113</sup> Moreover, the increasing of China's economic growth also becomes an excellent opportunity to make a business relationship with the entrepreneurs in Southeast Asia.<sup>114</sup>

In addition, regarding the Delogic Consultant prediction, China will always increase its foreign investment to other countries in the first quarter in 2016, and the effect can compete for The United States of America in term of the foreign investment.<sup>115</sup> Specifically, the support of China's government to conduct foreign investment by China's MNCs can encourage the development of China to strengthen its position in the global market.

Furthermore, the increasing of China's foreign direct investment in other countries as the result of the development

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<sup>111</sup> Linda, "values dalam diplomasi Ekonomi china," Jurnal Lingua Cultura Vol.4 No.1, Mei 2010, page 91

<sup>112</sup> Ibid

<sup>113</sup> Sutter Robert G, Chinese Foreign Relations "Power and Policy Since Cold War," Rowman & Littlefield Publisher Inc, 2010, Page 3

<sup>114</sup> Ibid, Page 209-210

<sup>115</sup> [www.voaindonesia.com](https://www.voaindonesia.com), "jumlah investasi China diluar negeri terus melonjak", accessed from <https://www.voaindonesia.com/a/jumlah-investasi-china-di-ln-melonjak-/3370169.html>, retrieved on 10 November 2018 16.55

of China's economic power.<sup>116</sup> In 2013, the amount of China's foreign investment reached \$613 billion.<sup>117</sup> However, the focus of China foreign investment not only in the Asian country, but this state also tends to enlarge its investment power to America, Europe, Latin America, Oceania, and Africa.<sup>118</sup>

Regarding the research of Rhodium Group and MERICS, the investment becoming the main agenda in the diplomatic meeting of China with other states. Moreover, this is the effect of the decreasing of China's demand product and the increasing of China's surplus product.<sup>119</sup> Also, the diplomats of China use the investment and other financial cooperation as a tool of the diplomatic mission with the European Union.<sup>120</sup>

Furthermore, according to the statement of Zhou Xiaochouan as the Governor of The Bank People's of China, in 2016 China's company has more significant foreign investment in other states than in 2015.<sup>121</sup> However, this is the strategy of China's government and company to strengthen the economic hegemony in the international level.

Moreover, in 2017, the rate of foreign investment growth of China in Indonesia reached 27%.<sup>122</sup> Therefore,

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<sup>116</sup> Cipto Bambang, "Strategi China Merebut Status Super Power," 2018, Page 33

<sup>117</sup> Ibid

<sup>118</sup> Ibid

<sup>119</sup> [www.voaindonesia.com](https://www.voaindonesia.com), "Jumlah investasi China di Indoensia melonjak," accessed from <https://www.voaindonesia.com/a/jumlah-investasi-china-di-in-melonjak-/3370169.html>, retrieved on 07 November 2018 16.51

<sup>120</sup> Ibid

<sup>121</sup> Ibid

<sup>122</sup> [www.suara.com](http://www.suara.com), "2017, Pertumbuhan Investasi Cina di Indonesia Sebesar 27 Persen", accessed from <https://www.suara.com/bisnis/2018/04/25/110408/2017-pertumbuhan-investasi-cina-di-indonesia-sebesar-27-persen>, retrieved on 07 November 2018 17.12

regarding the statement of the minister of economic consular and the trade of China's embassy in Indonesia predict the investment growth will increase from time to time.<sup>123</sup> On the other hand, the government of Indonesia also gives easier access and procedure to attract foreign investment from China.

Moreover, the state uses economic diplomacy to fulfill its national interest related to the economic and technological aspect.<sup>124</sup> It caused by the power of the state can determine by economic power itself.<sup>125</sup> Therefore, all of the states tend to use soft power and peace way to strengthen its economic power.<sup>126</sup> On the other hand, the role of international trading can influence the development of economic diplomacy itself.<sup>127</sup>

Table 3. 1 The top ten investors in first quarterly in Indonesia (2018)<sup>128</sup>

<b>State Investor</b>	<b>Amount of Investor (US\$)</b>
Singapore	2,6 billion
Japan	1,4 billion
South Korea	940 billion
China	676,2 billion
Hong Kong	516,1 billion
The British Virgin Islands	378 billion
USA	372,4 billion
Malaysia	274,6 billion
Netherlands	170,4 billion
Australia	135,3 billion
Others	658,6 billion

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<sup>123</sup> Ibid

<sup>124</sup> Roy.S.L, "Diplomasi," Rajawali Pers Jakarta, 1991, Page 120

<sup>125</sup> Ibid

<sup>126</sup> Ibid

<sup>127</sup> Ibid

<sup>128</sup> databoks.katadata.co.id, "Triwulan I 2018, Sepertiga Investasi Asing Indonesia dari Singapura", accessed from <https://databoks.katadata.co.id/datapublish/2018/05/02/triwulan-i-2018-sepertiga-investasi-asing-indonesia-dari-singapura>, retrieved on 10 November 2018 19.04

Based on the data above, the foreign investment in the first quarterly in 2018, China in the fourth position after Singapore, Japan, and South Korea as the biggest investor in Indonesia. Specifically, the amount of China's investor reached USD 676,2 million.<sup>129</sup> Meanwhile, regarding the amount of project handled by China in Indonesia reached 763 projects. Moreover, the projects consist of the capital-intensive sector, labor-intensive sector, smelter, and infrastructure.<sup>130</sup>

Also, the stability of the economy and politic becomes the essential factors that influence the existence of FDI in the host state. Means, the stability of the economy and political situation will create a conducive environment for Multi-National Corporations to strengthen the power of FDI.<sup>131</sup>

Specifically, the policy of the host government to support or limit the flow of FDI also can affect the decision of Multi-National Corporations to conduct investment. The states that have a huge market will not attract FDI if the policy of the host government limits the development of FDI itself. Besides that, the non-transparency and unstable political condition also become a big challenge for FDI in the host state.<sup>132</sup>

Additionally, regarding the perspective of Akinkugbe (2003), there are some reasons of Investor to conduct foreign investment in the host state, such as the national income, the orientation of international trading output, the development of infrastructure, and the rate return on investment.<sup>133</sup>

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<sup>129</sup> Ekbis.sindonews.com, "Investasi China di Indonesia Terus Meningkat," accessed from <https://ekbis.sindonews.com/read/1224240/34/investasi-china-di-indonesia-terus-meningkat-1501065490>, retrieved on 07 November 2018 17.25

<sup>130</sup> Ibid

<sup>131</sup> Ibid page 2

<sup>132</sup> Ibid

<sup>133</sup> Kusumastuti Sri Yani Kusumastuti, "Penanaman modal asing dan pertumbuhan industri di ASEAN(6), China, India, dan Korea Selatan 1999-2004" Jurnal Ekonomi dan Bisnis Indonesia, Vol 23 No.3 Tahun 2008, page 8

### **3. 1 The policy of the Indonesian government to support FDI**

Moreover, the role of Multi-National Corporations as a crucial non-state actor in the international level can influence the political and economic condition of a host state.<sup>134</sup> In the side of developing countries, it often follows the development of economic and social plans that involving the regulation of the marketplace and can make conflict with the goals of MNCs itself.<sup>135</sup>

In the national economic system, foreign investment is one of the instruments to support the economic development of a state. Moreover, it will increase the national income of the state and help the host government to enlarge the job field for the society.<sup>136</sup> Moreover, in the Reformation era and the economic crisis in 1997 released the decreasing of foreign investment in Indonesia.<sup>137</sup> Then, it made the recovery of the Indonesian economic crisis working slower, because of the small amount of financial aid from the investment. On the other hand, the international relations of Indonesia with USA and Singapore had a bad situation, but Indonesia still received financial donor. In 1999-2000, regarding the perspective of the global economy, Indonesia had a bad image as the state to receive foreign investment.<sup>138</sup>

Moreover, to overcome these problems, the government of Indonesia tends to create a revolution to attract Foreign Investment, for example like the establishment of infrastructure to support the development and production of MNCs, and also create easier permission for Foreign

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<sup>134</sup> Henderson W Conway, "Multinational Corporations and Human Rights in the Developing States," *Journal of World Affairs*, Vol. 142, No. 1 (Summer 1979), Page 17

<sup>135</sup> Ibid

<sup>136</sup> The Repository University of Riau, accessed From <http://repository.unri.ac.id/>, retrieved on 16 December 2018

<sup>137</sup> Ibid

<sup>138</sup> Ibid

Investment in Indonesia.<sup>139</sup> Also, Indonesia is an archipelago state and has a vast region, and makes the Indonesian government has a responsibility to develop the entire region. In contrast, the geographic condition of Indonesia as an archipelago state becomes the barrier for Indonesian development. Besides that, the potential natural resources of Indonesia and its strategic position will be the critical value in the international market. However, to support the Indonesian economic development, Indonesia needs the foreign direct investment to enrich the capability of this state in the international market.<sup>140</sup>

Furthermore, some sectors become the primary target of foreign investors, such as development, tourism, mine, transportation, and dairy products. Focusing on transportation, Indonesia is one of the states that become an essential market for the automotive product, it caused by the significant amount of Indonesian people and the high purchasing power. Therefore, SGMW uses this opportunity to expand the Indonesian market.<sup>141</sup>

Also, one of the reasons of the Indonesian government needs foreign investment is the number of its export is still low. Then, the establishment of Infrastructure and industrial region to support the economic development need a vast number of capitals. In contrast, the Indonesian government cannot support its economic development that only uses national capital or investment.<sup>142</sup>

Moreover, the existence of foreign direct investment in Indonesia that creates an industrial chain can enlarge the job field for Indonesian people. Besides that, it will transfer the technology from the home state to the host state. It means, the

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<sup>139</sup> BPLawyers, perkembangan serta manfaat investasi asing di Indonesia, accessed from <https://bplawyers.co.id/2017/09/08/perkembangan-manfaat-investasi-asing-di-indonesia/>, retrieved on 15 December 2018

<sup>140</sup> Ibid

<sup>141</sup> Ibid

<sup>142</sup> Ibid



host state also will get intellectual investment in the process of production. The foreign direct investment also can encourage the number of export of the host state.<sup>143</sup> Moreover, the existence of MNCs like SGMW can affect living standards, poverty, and economic development in the host state.<sup>144</sup>

It is focusing on the infrastructure aspect, Indonesian government two kinds of regions such as Special Economic Zone and Integrated Industrial Area. Special Economic Zone means an area that has an excellence geostrategic and geoeconomics. Then, the function of this area is to support the industrial activity, export, and trading. In Indonesia, there are nine of Special Economic Zone, such as Tanjung Kelayang, Tanjung Lesung, Maloy Batuta Trans Kalimantan, Sei Mangkei, Mandalika, Morotai, Bitung, Tanjung Api-Api, Palu. Meanwhile, Integrated Industrial Area means an area that use to support the industrial process. In Indonesia, there are 13 of Integrated Industrial Area.<sup>145</sup>

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<sup>143</sup> Ibid

<sup>144</sup> Cohen D. Stephen, *Multinational Corporations and Foreign Direct Investment*, Oxford University Press, 2007, page 180

<sup>145</sup> BPLawyers. op. Cit.

Table 3. 2 The list of Integrated Industrial Area in Indonesia<sup>146</sup>

No	Name	Location	Size	Production
1	Kendal Industrial Area	Central Java	700 Hectare	Automotive Parts and Furniture
2	Bukit Semarang Baru Industrial Area	Central Java	40 Hectare	Waste Free Products
3	Wijayakusuma Industrial Area	Central Java	100 Hectare	Garment and Housing
4	Java Integrated Industrial and Port Estate (JIPE)	East Java	1,761 Hectare	Heavy Equipment, Automotive, and Fertilizer
5	Bantaeng Industrial Area	South Sulawesi	3000 Hectare	Mineral
6	Modern Cikande Industrial Area	West Java	1.800 Hectare	Electronic and Electrical Component
7	Wilmar Integrated Industrial Area	East Java	800 Hectare	Food Products
8	Cilegon Industrial Area	West Java	570 Hectare	Steel, Mineral, and Chemistry
9	Bekasi Fajar Industrial Area		300 Hectare	Land Provider
10	Delta Silicon Industrial Area	West Java	158 Hectare	Automotive Spare Parts, Vehicle, Electronic, and Foods
11	International Karawang Industrial Area	West Java	293 Hectare	Automotive Spare Parts, Vehicle, Sanitation, and Foods
12	Surya cipta Industrial City	West Java	1.400 Hectare	Wheel, Car Storage Battery, and Plastic
13	GT Tech Park Industrial Area	West Java	100 Hectare	Automotive Spare Parts

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<sup>146</sup> Ibid

According to the table above, Indonesia provides a lot of Integrated Industrial Area to attract Foreign Direct Investment and support the production process. Focusing to the case of SGMW, this MNC will get a more natural way to support the production process, because of Indonesian government already provides some Integrated Area that related with SGMW production, for example like International Karawang Industrial Area and GT Tech Park Industrial Area.

On the other hand, the Indonesian government also simplifies a regulation of Foreign Direct Investment in Indonesia to attract investment and encourage national development. Regarding the *Bapenas* about the needs of foreign investment in Indonesia in 2015-2020, Indonesia needs \$600 billion in the developing of infrastructure to support the national development. In contrast, the government of Indonesia only has 25% of the total investment, and make the needs of foreign investment very important.<sup>147</sup> Individually, Since 2015 the government of Indonesia and China have signed an MOU which the government of China will give \$3 billion to fund 52 projects in Indonesia.<sup>148</sup>

Besides that, the competition among MNCs still happens, and it will find the best bargaining with the host government and attract the potential market.<sup>149</sup> In Contrast, MNCs also will create a dependency on the host state in the future, especially in the term of economic stability.<sup>150</sup>

In the era of the old order in Indonesia, the needs of foreign investment are critical; because it will develop the foreign exchange of Indonesia.<sup>151</sup> Furthermore, the policy of the Indonesian government to accept foreign direct investment from MNCs contained in “*Tap MPRS No. XXIII/MPRS/1966*”

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<sup>147</sup> Cipto Bambang, “Strategi China Merebut Status Super Power,” Pustaka Pelajar, 2018, Page 169

<sup>148</sup> Ibid

<sup>149</sup> Ibid, Page 19

<sup>150</sup> Ibid

<sup>151</sup> Wuryandari Ganewati, Mashad Dhurorudin, Pujiastuti Nuke Tri, Alami Athiqah Nur, Politik Luar Negeri Indonesia Di Tengah Pusaran Politik Domestik, Pustaka Pelajar and P2P-LIPI, 2008, Page 145

about the renewal policy of the basic principle of financial economics and development, and also “UU No. 1 Tahun 1967” about foreign investment.<sup>152</sup>

However, the establishment of the foreign investment policy is the continuity of “Tap MPRS No. XXIII/MPRS/1966” and it becomes the guideline of SGMW to conduct foreign direct investment in Indonesia.<sup>153</sup> Specifically, regarding article 9 and 10, the purpose of foreign investment is to create a strong and stable economic system in Indonesia. Moreover, the means of economic development is the management of potential economic power to real economic power through investment, the using of technology, the development of knowledge and skill, and the development skill in the organization and management.

*Article 10 of “Tap MPRS No. XXIII/MPRS/1966”*

*“The responsibility to overcome the problems of the economy and the development of potential economic must be handled by the power of Indonesian people. However, it is possible to use the potential capital, technology, and skill that comes foreign investment. Therefore it must for the national economic interest without creating a dependency on foreign investment.*

Furthermore, article 9 and 10 explained that the government of Indonesia is open to the foreign direct investment that has the same purpose of strengthening and accelerating the national power economy. Besides that, the small amount of domestic investment is the barrier of the Indonesian government in the national development, however, the existence of foreign direct investment becoming a significant thing. The amount of foreign direct investment is larger than domestic investment. Regarding the data from BKPM, in 2016, in the total of investment realization that

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<sup>152</sup> Simatupang H. Taufik, “kebijakan pemerintah dibidang penanaman modal asing (PMA) dalam rangka meningkatkan iklim investasi di Indonesia,” *Lex Jurnalica*. Vol. 7 No. 3, Agustus 2010, page 191

<sup>153</sup> *Ibid*

reached Rp 612,8 trillion, 63,1% consists of foreign direct investment.

Regarding the concept of national interest, the economy is one of the fundamental things that must be fulfilled to maintain national stability. However, the government of Indonesia cannot develop and strengthen its national economy without the support from other countries, and then the existence of Foreign Direct Investment is the bridge to increase national income and economic welfare.

Moreover, the existence of SGMW can encourage the economic development of Indonesian people from bottom to top. It caused by SGMW will provide huge job field for 3000 Indonesian people.<sup>154</sup> Specifically, the industry of SGMW needs a worker in tier 1, tier 2, and tier 3, staff, sales marketing, technician, and others.

Moreover, regarding article 1 of "*Tap MPRS No. XXIII/MPRS/1966*", there are four elements of foreign investment, such as foreign direct investment, the using of capital to running the company, the company exist in Indonesia, and the risk is the responsibility of investor.<sup>155</sup> Also, regarding article 2 sub-A the meaning of external payment instrument refers to foreign capital or foreign investment. However, to a decided external payment instrument that included in foreign investment, the government of Indonesia uses the term of "the foreign exchange wealth of Indonesia." Therefore, foreign investment included equipment, copyrights, and technology.

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<sup>154</sup> CNN Indonesia, "FaktaMenarik Mobil China Wuling Confero Di Indonesia," accessed from <https://www.cnnindonesia.com/teknologi/20170524135028-384-216985/fakta-menarik-mobil-china-wuling-confero-di-indonesia>, retrieved 10 November 2018 17.33

<sup>155</sup> Simatupang H. Taufik, "kebijakanpemerintahdibidangpenanaman modal asing (PMA) dalamrangkameningkatkanikliminvestasi di Indonesia," *Lex Jurnalica*. Vol. 7 No. 3, Agustus 2010, page 191

Concerning the SGMW case, this company put money capital in not only in Indonesia, but also the construction of the factory, marketing system, and the transfer of technology. Moreover, Indonesia through SGMW investment can develop knowledge about automotive faster. Sumantoro (1987) give some relations between the Multi-National Corporations/Foreign Direct Investment and the host state. The relations consist of cooperation, conflict of interest, and dependency. Focusing the positive effect of SGMW on conducting FDI, it can assist the government in a host state in the development, and then the existence of FDI can be accepted well.<sup>156</sup> In contrast, the adverse effect of SGMW to use FDI in the host state can create over dependency on the foreign capital. However, it will release unstable condition in the national economic system.

However, according to the capacity of the government of Indonesia to accept foreign investment or not, there are three categories of business sectors that can use foreign investment, for example like close investment, open with requirements, and fully open. Therefore, these three categories contained in the list of negative investment in “*Peraturan Presiden Nomor 44 Tahun 2016*”.<sup>157</sup>

Moreover, close investment means a business sector is not allowed to get capital from foreign direct investment; it caused by the business sector relates to the national security. Besides that, the purpose of this policy is to protect the small and medium economic business sector in Indonesia. Specifically, according to the “*Perpres 44/2016*”, the share of the business sector must be 100% from domestic.<sup>158</sup>

Furthermore, there is a policy that allows foreign direct investment with requirements. It means, the government

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<sup>156</sup> Ibid

<sup>157</sup> Ibid

<sup>158</sup> Ibid

will make the maximum amount of foreign direct investment up to 49% in the business sector, for example in farming, and the industry of car maintenance.<sup>159</sup> Furthermore, based on ease of doing business (EODB), the rank of Indonesia as the state to receive an investment increase from 72 to 91.<sup>160</sup> It means Indonesia has a good image in the licensing process of investment.

In contrast, the government of Indonesia also created a policy that allows 100% of foreign direct investment in a specific business sector. Therefore, 35 sectors allow the user of foreign direct investment such as the construction of toll road, e-commerce, medicine, film, food, electronic, automotive, and engine.<sup>161</sup>

Regarding those three types of foreign investment, SGMW included in the fully open foreign investment. Means, the government of Indonesia gives 100% of the company right to the SGMW as long as this MNC does not break the policy of investment. On the other hand, the adverse risk of automotive market will be the own problem of SGMW, and the government of Indonesia does not have responsibility for it.

### **3. 2 The licensing process**

Regarding the previous explanations, before the SGMW start their business sector in Indonesia, SGMW must get permission to conduct foreign investment in Indonesia. Specifically, if the investors want to enlarge the business sector, they only need to change the license of foreign investment. Therefore, there are four principles of license that

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<sup>159</sup> Ibid

<sup>160</sup> finance.detik.com, "Peringkat Kemudahan Investasi RI Naik ke Posisi 72", accessed <https://finance.detik.com/berita-ekonomi-bisnis/d-3708633/peringkat-kemudahan-investasi-ri-naik-ke-posisi-72>, retrieved on 24 January 2019, 16.05

<sup>161</sup> Simatupang H. Taufik, op. Cit.

MNCs must get to conduct foreign direct investment, such as the license of principle, the license of business, and the planning to use foreign worker, and the license to use a foreign worker.<sup>162</sup>

Specifically, in the process of licensing the government of Indonesia through BKPM gives special treatment for the MNCs that has investment above Rp.100 billion. Moreover, the investment will get “Investment license in 3 hours” it means MNCs can finish the process of investment licensing only in 3 hours if all of the requirements have been completed. Besides that, special for the MNCs in the sector of the supply chain, also can use the treatment of “Investment license in 3 hours” although the amount of the Investment less than Rp.100 billion.

Furthermore, the form of foreign investment is not only foreign direct investment. Regarding the article of 23 about the policy of foreign investment, Joint Ventura is also the part of the foreign investment. Joint Ventura means the investment consists of domestic and foreign investment. Moreover, regarding the article 18 about the policy of foreign investment, the permission of MNCs to conducted foreign direct investment in Indonesia maximum for 30 years.<sup>163</sup>

Focusing on the policy of automotive investment, In the era of President Susilo Bambang Yudhoyono (SBY) created the policy Low-Cost Green Car (LCGC).<sup>164</sup> LCGC means the car that produces and sell in Indonesia should be cheap and efficient of energy. Moreover, regarding the “*Permenkeu No 176/PMK.011/2009*” about the exemption from import duty of machine, and material industry that has

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<sup>162</sup> Ibid

<sup>163</sup> Ibid

<sup>164</sup> [kemenperin.go.id](http://kemenperin.go.id), “menatap kebijakan mobil murah,” accessed from <http://kemenperin.go.id/artikel/7185/Menatap-Kebijakan-Mobil-Murah>, retrieved on 08 November 2018 20.07



the label of environmentally friendly will get incentive from the government of Indonesia.<sup>165</sup>

Moreover, the incentive included for LCGC, electric car, hybrid car, and biofuel car. Specifically for LCGC, it must have the technology of low fuel consumption. Therefore, the indication of this technology is the cylinder of the machine about 980-1200 cc and can reach 20 km with 1 liter of gasoline.<sup>166</sup>

Furthermore, to strengthen the policy of President Susilo Bambang Yudhoyono, the Ministry of Indonesian Industry released “*Permenperin No 33/MIND/PER/7/2013*” about the product development of four wheels vehicle that efficient of energy and has low prices. Therefore, this regulation legalized by the ministry of Indonesian Industry on 1<sup>st</sup> July 2013.<sup>167</sup> Moreover, the benefit of LCGC in the prices before local taxes, name transfer fees, and vehicle tax are maximum Rp. 95 million.

Table 3. 3 The list of LCGC car in Indonesia in November 2018<sup>168</sup>

Brand	Price
Honda Brio	139.000.000
Daihatsu Ayla	94.050.000
Toyota Agya	133.550.000
Datsun Go+	112.380.000
Toyota Calya	135.550.000
Daihatsu Siga	109.900.000
Suzuki Wagon R	107.500.000
Datsun Go	102.990.000

Regarding the above table, the car brand of Wuling Motors is not included in the program of LCGC. Although

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<sup>165</sup> Ibid

<sup>166</sup> Ibid

<sup>167</sup> Ibid

<sup>168</sup> Id.priceprice.com, “Daftar Harga Mobil LCGC November 2018 di Indonesia”, accessed from <https://id.priceprice.com/mobil/?car-category=mobil-lcgc-4-4>, retrieved on 10 November 2018 18.26

Wuling car is not the type of LCGC, this car brand mostly has the same price with LCGC car. Moreover, the decision of Wuling to not join the LCGC program is the strategy to maintain the segment its product.<sup>169</sup>

### **3. 3 The values of Foreign Direct Investment in**

#### **Indonesia**

In contrast, regarding the perspective dependency and world system by Linda Beer, Multi-National Corporations through Foreign Direct Investment also can release negative impacts to the host state.<sup>170</sup>

*"In the World-System/Dependency perspective three mechanisms are hypothesized to link foreign investment and social inequality [...] First, foreign investment in developing countries generates large sectoral disparities in the national economy, creates labor aristocracies and results in the underutilization of domestic labor. Second, transnational corporations operating in developing nations accrue a disproportionate share of local sources of credit and repatriate profits rather than reinvesting them in the local economy. Finally, the governments of these nations, motivated by the necessity (generated by their incorporation into the capitalist world economy) of attracting and maintaining foreign investment, implement policies and strategies that decrease the*

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<sup>169</sup> Oto.detik.com, "Wuling tolak LCGC, takut merusak segmennya," accessed from <https://oto.detik.com/mobil/d-3863172/wuling-tolak-lcgc-takut-merusak-segmennya>, retrieved on 10 November 2018 18.33

<sup>170</sup> Tausch Arno and Heshmati Almas, "The Effects of Multinational Corporation (MNC) Penetration on the Global Political Economy. A Re-analysis of a Recurrent Sociological Proposition with Contemporary Data", *Journal of Sociología* Vol. 44 No. 3, 2012, Page 318

*power of labor and inhibit vertical mobility. These include tax concessions, guarantees of profit repatriation, and labor laws unfavorable to workers" (Beer 1999: 4-7)*

Moreover, it will raise the unemployment, deficient life expectancy, and inequality between societies.<sup>171</sup> Therefore, to avoid these negative possibilities, the government of host state must have clear rule and law to control the development and movement of MNCs, the purpose is to create the balance benefit.

However, to create an efficient system in the foreign direct investment, the government of Indonesia decided to create the minimum limit of Investment become Rp.10 billion, and it excludes the prices of land and building. Specifically, this policy is only for a new foreign direct investment conducted by Multi-National Corporations, for example, SGMW.

Also, regarding the process of investment transactions, a company that decided to conduct foreign direct investment in Indonesia must pay at least 25% of the total investment. In contrast, if the foreign direct investment is the continuity of the previous investment, the company can invest less than Rp.10 billion.

Furthermore, the purpose of the minimum limit of foreign direct investment is to protect and encourage the development of small and medium industry in the domestic level. Moreover, it means only the investor that has significant capital that can open foreign direct investment in Indonesia.

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<sup>171</sup> Ibid, page 318

Besides that, the political stability of a state is crucial to attracting Foreign Direct Investment in Indonesia.<sup>172</sup> Therefore, political stability can determine the condition of economic and market of Indonesia, for example, if Indonesia has good political stability, it can minimize the risk of economic crisis and encourage economic growth. Then, the effect is increasing the economic welfare and the purchasing power of the community to buy goods and services. In addition, PMA Law (article 21 and 22) explain the guarantee that there is no intention to nationalize foreign assets and a guarantee of compensation payment if nationalization does occur.

In contrast, the political instability of a country can release a practice of demonstration, strike work, disturbing the process of production, and a threat of the nationalization of a foreign company in Indonesia.<sup>173</sup> Then, regarding the Foreign Investment Law article 21 and 22, Indonesian government guarantee the safety of MNCs included to avoid Nationalization of a foreign company.<sup>174</sup>

Also, the introducing concept of Corporate Social Responsibility (CSR) in the Multi National-Corporations to the local firms becomes can strengthen a good relationship between the corporation and the state.<sup>175</sup> Moreover, this the effect of social issues in the host state related to environmental pollution, abusive labor, and quality flaws.<sup>176</sup> In the case of SGMW, it tends to use the Global Manufacturing System (GMS) as the standard of an industrial process; the purpose is

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<sup>172</sup> Heriyanto J, "Peranan Multinational Corporations Dalam Industrialisasi Di Indonesia Pada Era Orde Baru," *Jurnal Manajemen & Kewirausahaan* Vol. 5, No. 1, Maret 2003, Page 19

<sup>173</sup> Ibid

<sup>174</sup> Ibid

<sup>175</sup> Zhao Meng, Zhao Nan, Park Seung Ho, "MNC strategy and social adaptation in emerging markets," *Journal of International Business Studies*, 2014, Page 1

<sup>176</sup> Ibid

to minimize pollution and increase the efficiency of production. Besides that, SGMW also gives training to the *SMK* students that will allow the transfer of technological process.

Furthermore, to complete the explanation in this chapter about the supporting factors of SGMW conducted Foreign Direct Investment in Indonesia; the Writer will give more explanation about the natural resource, the condition of the market, and the price of labor in the next chapter. Therefore, it will strengthen the argument of the writer in this chapter.